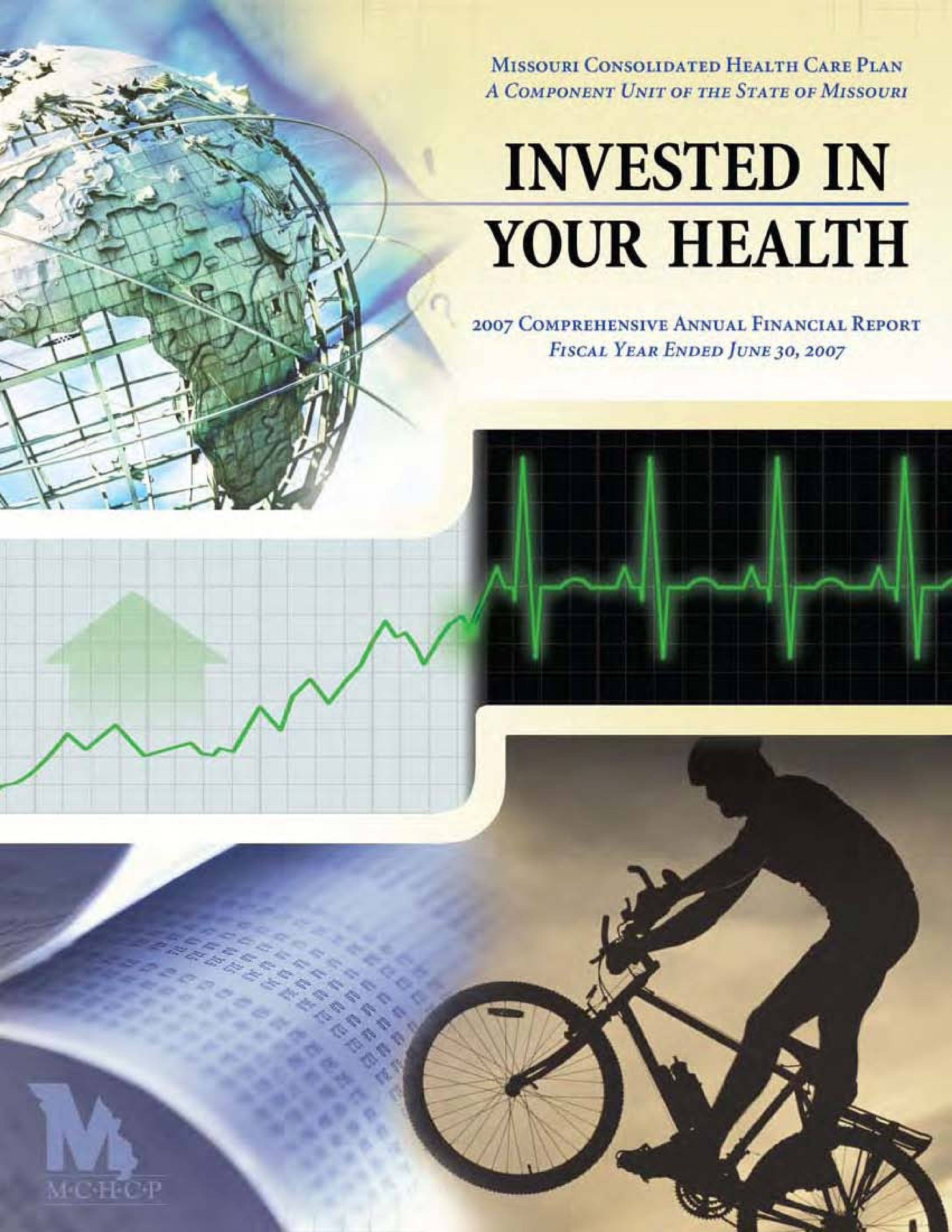
Missouri Consolidated Health Care Plan

A Component Unit of the State of Missouri

INVESTED IN YOUR HEALTH

2007 Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2007



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INVESTED IN YOUR HEALTH

2007 Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2007

Prepared By Fiscal Affairs

M·C·H·C·P

832 Weathered Rock Court
PO Box 104355
Jefferson City, MO 65110-4355

800.701.8881
www.mchcp.org

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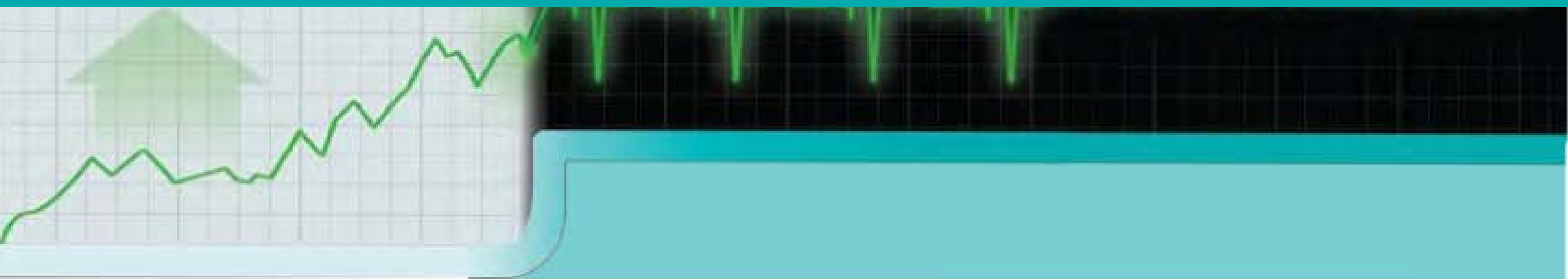
INTRODUCTORY SECTION

“This program has helped me get back on track with my health. Great exercise program—I walk 1 hour 7 days per week, ride my bike 6 miles 7 days per week (1/2 mile is uphill) and use hand weights 3 days per week.

“I’ve lost a total of 69 pounds since beginning the wellness program. I’m walking 4 miles a day in the morning with a friend before work. Changing my eating habits was easy—I just eat an unlimited amount of fruits and vegetables and also incorporate fish and chicken. My motivation is wanting to feel good and increase my energy. The wellness program was a God send.”



Letter from the Executive Director

Ron Meyer
Executive Director

832 Weathered Rock Court
PO Box 104355
Jefferson City, MO 65110
Ph: 800.701.8881

M·C·H·C·P
Missouri Consolidated Health Care Plan

www.mchcp.org

Ron Meyer
Executive Director

December 12, 2007

It is with great pleasure that I submit the annual report of the Missouri Consolidated Health Care Plan (MCHCP) for the period ended June 30, 2007. MCHCP is a component unit of the State of Missouri for financial reporting purposes and as such, the financial reports contained in this report are also included in the State of Missouri Comprehensive Annual Financial Report. The financial information presented in this report is the responsibility of the management of MCHCP and sufficient internal accounting controls exist to provide a reasonable assurance regarding safekeeping of assets and fair presentation of the financial statements, supporting schedules and statistical tables. The report is also designed to comply with the provisions of section 103.025 of the Revised Statutes of Missouri (RSMo) as amended.

Managing health costs to ensure affordable options, providing quality of choice, while supporting the members of the MCHCP with the best in customer service, are just a few of the values that support the theme of our Fiscal Year 2007 Comprehensive Annual Financial Report—*Invested in Your Health*. Nationally, states have found it increasingly more difficult to moderate costs due to rising trends in pharmacy, hospital care and physician services. In response, many of them are placing a focus more directly on their members. Across the country large employers, such as the MCHCP, have implemented varied strategies for incenting employees to focus on their health. Fiscal year 2007 marked the second year of our targeted investment in both wellness and disease management programs and saw over 27,000 members complete the personal health assessment. These programs focus on encouraging preventative care while also helping to address the needs of our population that have chronic health conditions. While many of these programs require long term investment to facilitate overall reductions in health care costs, during fiscal year 2007 programs in nicotine replacement reported a 30 percent success rate while over 38 percent of enrollees quit using smokeless tobacco. Of our members enrolled in the Weigh to be Healthy program, approximately 56 percent of members reported weight loss of an average of over 7 lbs. These success stories compliment our enthusiasm for these programs and led to the MCHCP receiving the prestigious *2007 Consumer Health World Award for Best Wellness Initiative* for our work in the area of wellness. We are proud of this accomplishment and thank you, our membership, for your dedication to *Investing in Your Health*.

Pharmacy Costs also continue to rise.

"Pharmacy drug purchases account for about 10% of the national health care dollar and…almost 10% of the projected growth in national health care costs in 2006." [1] *Medical Benefits, Volume 24, Number 13, July 15, 2007.* The MCHCP, like many large employers, has adopted incentives for employees to choose generic drugs over higher priced brand name alternatives. In June of 2007, our pharmacy vendor, Express Scripts, reported the MCHCP realized a 70.3 percent generic fill rate for prescriptions where a generic alternative was available. Among state governments that contract with our pharmacy benefit manager, we rank over six percentage points higher in generic utilization. To put that figure into perspective, the plan saves approximately $920,000 for every additional generic percentage point. We believe sound education to our employees about the benefit of generic use coupled with the efforts of our membership in dedicating themselves as a partner in health cost containment made this effort possible.

Fiscally, the fund remains strong with total assets of over $202 million. Revenues for the year increased to over $474 million with approximately $9.1 million attributable to our non state public membership. Additional financial information can be found in the management discussion and analysis and financial statements included in this report.

For the twelfth year in a row, the MCHCP was pleased to receive the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the year ended June 30, 2006. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to qualify, a government unit must publish a report conforming to all GFOA standards. The Certificate of Achievement is valid for a period of one year only. The MCHCP will continue to strive for such recognition with its submission of our current report for consideration to GFOA.

The report is a product of the combined efforts of the MCHCP staff and the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, for determining compliance with legal provisions and for evaluating the condition of the fund. MCHCP has received an unqualified opinion from our independent auditors whose report can be found on page 16.

This report is provided to the Governor, the State Auditor, members of the General Assembly, all state agencies, and all participating public entities. The cooperation and support of all these individuals and agencies help contribute to our success. Also, for the Board of Trustees, I would like to express sincere gratitude to the staff and advisors who have worked so diligently to assure the success of the Missouri Consolidated Health Care Plan during this past year.

Sincerely,

Ron Meyer

Ron Meyer
Executive Director

Among state governments that contract with our pharmacy benefit manager, we rank over six percentage points higher in generic utilization. To put that figure into perspective, the plan saves approximately $920,000 for every additional generic percentage point.

The Staff

Executive

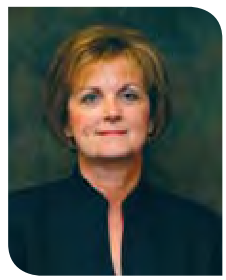
Responsible for maintaining knowledge of health care trends and how they may impact on the MCHCP; coordinating the development, evaluation and award of Requests for Proposal (RFPs) and new products; assists in the negotiation and execution of contracts; follows applicable new state and federal regulations to ensure MCHCP's compliance; and assists the Director in daily management of the organization.

Henry Curran
Assistant Executive Director

Jan Jackson
General Counsel

General Counsel & Internal Audit

General Counsel represents and advises the Board of Trustees; drafts proposed legislation and regulations; analyzes legislation; represents MCHCP, or coordinates representation through outside counsel, in litigation matters; prepares and interprets legal documents, including all contracts; serves as Privacy Officer to ensure compliance with HIPAA; and oversees the Internal Audit section. The Internal Audit section consists of an Internal Auditor and two Fraud Specialists. This section is responsible for mitigating risk of loss from error, waste and misconduct and ensuring the use of sound business practices.



Linda Grotewiel, RN
Manager of Clinical Review

Clinical Review

Clinical review assists in the development and evaluation/analysis of Requests for proposals (RFPs) for health plan vendors. Oversees and evaluates performance of HMO, PPO, PBM, Wellness and Disease Management vendors who are awarded contracts by MCHCP. Monitors and evaluates various provider issues including network development by contractors, provider turnover and provider performance. Serves as a liaison between members and contractors on a wide range of medical situations and the interpretation of benefits.

Lorraine Mixon-Page, SPHR
Manager of Human Resources

Human Resources

The Human Resources section is responsible for directing all aspects of the MCHCP personnel program and taking a lead role with all workforce issues. Human Resources works closely with department managers on processes related to interviewing, selection, training/development, and discipline of employees. The HR Manager is responsible for establishing and maintaining a fair compensation system, ensuring accurate and timely job descriptions are present in the classification plan and writing and interpreting personnel policies and procedures. The Human Resources section also handles wage and hour issues, worker's compensation reporting, and compliance with all federal, state and local personnel laws. These functions are performed to ensure fair and equitable treatment of all employees as well as those candidates seeking employment.

David Kirchhoff
Manager of Membership Services

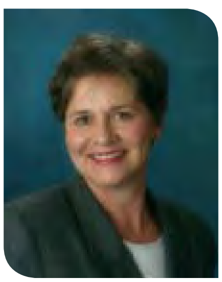
Membership Services

The Membership Services section is staffed by 10 membership technicians, one quality control specialist, one membership clerk and a supervisor. This section is responsible for maintaining all enrollment records for eligible members and for any changes to their coverage. They also administer coverage for retirees, survivors, members on leave-of-absence, those eligible for long-term disability, vested members who leave employment and COBRA coverage under Federal guidelines. The section is also responsible for insuring that public entity contributions, state contributions and member contributions are appropriately applied to members' accounts. Also included is the Receiving Services section, consisting of two technicians, one maintenance assistant, one specialist, and a supervisor. This section is responsible for all mail room activities, shipping and receiving, and minor building maintenance and repairs.

Alan Bailey
Manager of Marketing

Marketing

The Marketing section is responsible for informing and communicating with Missouri local governments about the health insurance plans available through the MCHCP. Staff provides numerous opportunities for eligible local governments to consider participating in the plans offered through the MCHCP. These opportunities include but are not limited to personal meetings, printed materials, audio and visual presentations. MCHCP also uses the services of contracted brokers who are trained by the marketing staff. There are currently five people in this section who are specialists in marketing, health insurance, risk management and administration.



Grace Rogers
Manager of Customer Support

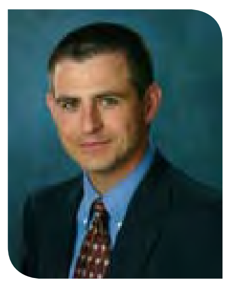
Customer Support

Customer Support is divided into two sections - Customer Relations and Communications. Customer Relations is comprised of nine Benefit Specialists, a receptionist and their supervisor. This section is responsible for resolving problems and answering questions regarding benefits and eligibility for members of MCHCP. The Communications section consists of four Communications Specialists, a Communications Analyst, two Communications Assistants and a Graphic Designer. Communications is responsible for educational and informational materials provided to members. This section conducts educational meetings throughout the state for open enrollment, new employee orientation, active employee and pre-retirement seminars and payroll/personnel workshops. Communications Specialists also function as account representatives to the individual state agencies and participating public entities. This section serves as a liaison between members, payroll/personnel representatives and the contracted insurance providers for MCHCP. Ultimately, Customer Support is responsible for customer service and customer satisfaction.

Stacia Fischer
Manager of Fiscal Affairs

Fiscal Affairs

The Fiscal Affairs section is responsible for all financial statements and records of the programs administered by MCHCP, including preparation of the Comprehensive Annual Financial Report (CAFR). Fiscal Affairs performs all purchasing functions for MCHCP, coordinates banking services, interfaces with the Office of Administration, accounting and budgeting departments, various payroll/personnel officers of state departments, accounting offices of health maintenance organizations, consultants, actuaries, banks and the IRS. The Fiscal Affairs section is staffed by six individuals with specialties in Accounting and Business Administration.

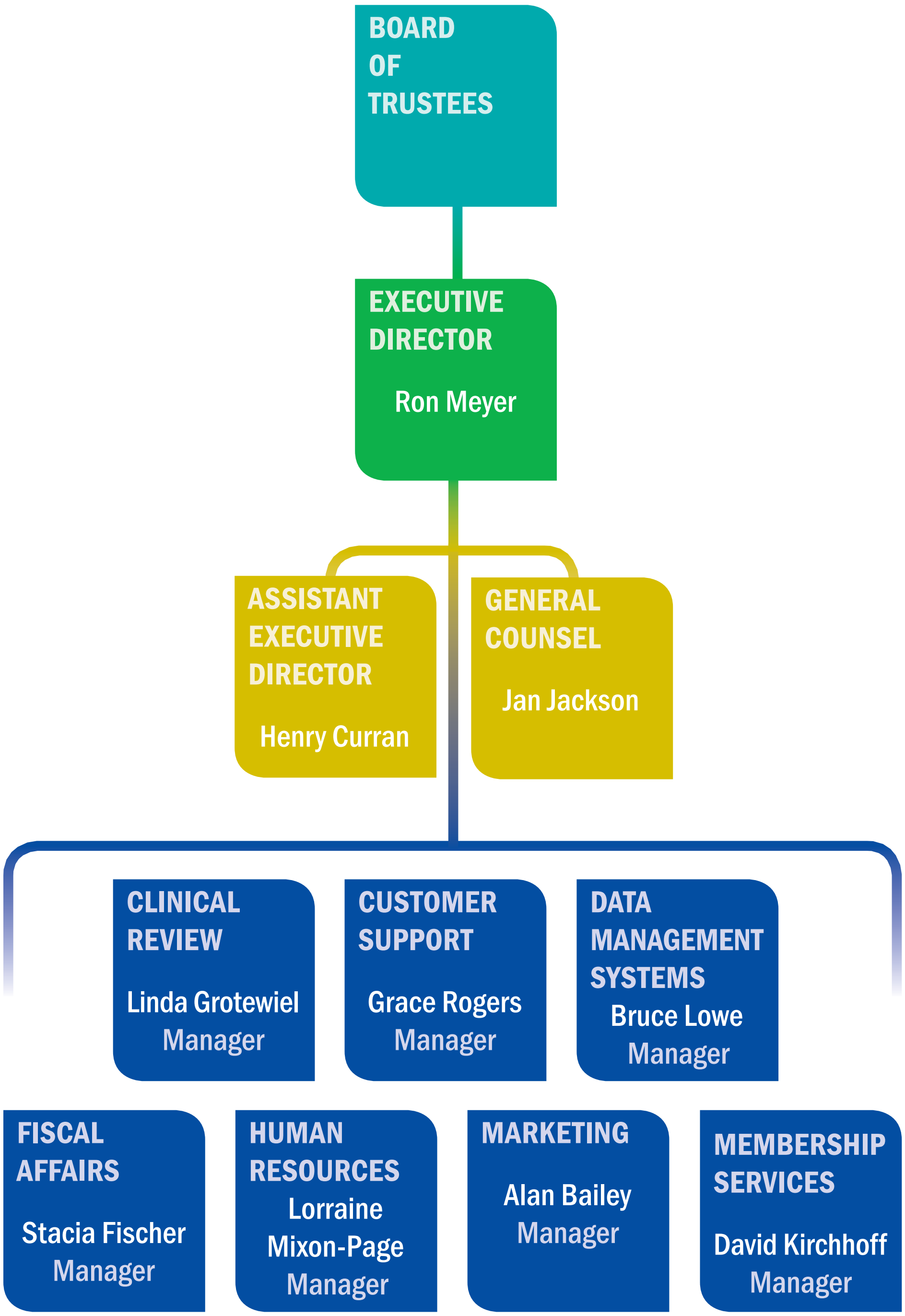


Bruce Lowe
Manager of Data Management Systems

Data Management Systems

The Data Management Systems section is responsible for meeting the technology needs of all operations throughout the MCHCP. From internal operation controls to external public access, DMS ensures all data is handled in accordance with established government guidelines and regulations; sensitive to sound business practices, and proven industry standards. The DMS team consists of programmers, developers and analysts responsible for improving member quality of service by enhancing strategic partnerships, data exchange, internal process efficiency, information awareness, and web based applications. The primary goal of this department is the continued availability and integrity of all data processes in support of day to day operations and long term goals. While always focused on information security and operational continuity, this section continues looking towards new technology based solutions and leveraging current resources to improve operational efficiency, communications, and overall member value. As always, we strive to bring the highest level of professionalism and service to all of our customers, both internal and external.

Administrative Organization



Professional Services

AUDITORS
Williams Keepers LLC
Heidi A. Chick, C.P.A.

BANKING
Central Trust Bank
David Meyer

CONSULTING
PricewaterhouseCoopers L.L.P.
Sandi Hunt, Peter Davidson

DENTAL PROGRAM
Delta Dental

EMPLOYEE ASSISTANCE PROGRAM
ValueOptions
Magellan Health Services

DISEASE MANAGEMENT PROGRAM
CareAllies

HEALTH MAINTENANCE ORGANIZATIONS (HMO)
Community Health Plan
Coventry Health Care of Kansas
Humana
Mercy Health Plans
Premier Health Plans
UnitedHealthcare

PHARMACY BENEFIT MANAGER
Express Scripts, Inc.

PREFERRED PROVIDER ORGANIZATION (PPO)
First Health
Mercy Health Plans
Premier Health Plans

POINT OF SERVICE (POS)
Mercy Health Plans
Premier Health Plans

VISION PROGRAM
Vision Service Plan

WELLNESS PROGRAM
Gordian Healthcare Solutions, Inc.

Letter from the Chair

Doug Ommen
Chair, Board of Trustees

During fiscal year 2007, for members participating in our wellness program, the MCHCP realized a 30% cigarette quit rate and weight loss was noted by over 56% of members enrolled in weight management programs.

December 12, 2007

It is with great pleasure that I present, on behalf of the Board of Trustees, the Comprehensive Annual Financial Report for the Missouri Consolidated Health Care Plan (MCHCP) for the period ended June 30, 2007.

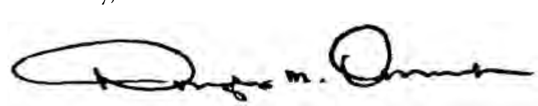
The Board of Trustees of the MCHCP is committed to pursuing the most comprehensive and affordable means of providing health care coverage to our State and public employee members. As evidenced by the theme of our 2007 report—*Invested in Your Health*—the MCHCP expended over $414 million on medical claims and capitation expense for the over 104,000 members of the Plan. Yet, just as importantly, the MCHCP promotes health among State and public employee members. Notably, the MCHCP is entering its second year of partnering with disease management and wellness contractors with the goal of achieving healthier member outcomes while producing financial savings to the State and the Plan. During fiscal year 2007, for members participating in our wellness program, the MCHCP realized a 30% cigarette quit rate and weight loss was noted by over 56% of members enrolled in weight management programs. Statistics such as these bolster our efforts and provide sound evidence that strong Plan management coupled with a membership dedicated to its well being can produce a healthier workforce.

During 2007, our commitment to self insurance was again realized as membership in self-insured medical options increased from 90% in 2006 to approximately 91% for 2007. Savings from self-funding and effective Plan management allowed the Board of Trustees to reduce our appropriation request to the Missouri General Assembly by over $21 million for the upcoming fiscal year. The Board of Trustees of the MCHCP takes its fiduciary responsibilities seriously as we guide the Plan forward.

As we look forward to the upcoming year, the Board of Trustees and the staff of the MCHCP continue to pursue methods to maximize health savings while offering Plan options that provide stability, quality and value to the members of the Plan.

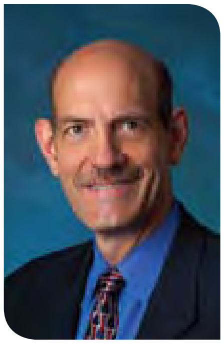
On behalf of the Board of Trustees, we thank the staff and others who have worked with us this past year. The Board and staff welcome your comments and suggestions for future improvements.

Sincerely,



Doug Ommen
Chair
Board of Trustees

Board of Trustees

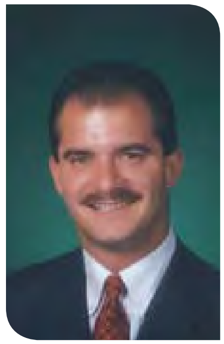


CHAIRPERSON
Doug Ommen,

Director, Department of Insurance, Financial Institutions & Professional Registration

Ex Officio Member

Committees:
Executive †, Investment



VICE-CHAIRPERSON
Patrick Naeger,

Perryville

Governor Appointed Member

Committees:
Audit †, Executive

A. Stephen Coburn,

St. Louis

Governor Appointed Member

Committees:
Audit, Investment, Personnel †,

Jane Drummond,

Director, Department of Health and Senior Services, Jefferson City

Ex Officio Member

Committees:
Appeals, Personnel

Mike Keathley,

Commissioner, Office of Administration, Jefferson City

Ex Officio Member

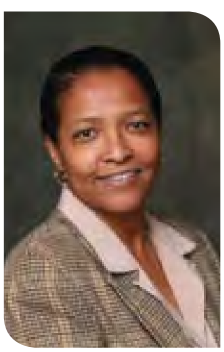
Committees:
Budget †, Executive, Investment †

Senator Ryan McKenna,

Missouri Senate, Crystal City

Appointed by the President Pro Tem of the Senate

Committees:
Executive



Roslyn Morgan,

Probation and Parole, St. Louis

Governor Appointed Member

Committees:
Appeals, Audit, Budget

Representative Sam Page M.D.,

Missouri House of Representatives, Creve Coeur

Appointed by the Speaker of the House

Committees:
Budget

Representative Rob Schaaf, M.D.,

Missouri House of Representatives, St. Joseph

Appointed by the Speaker of the House

Committees:
Executive

Senator Delbert Scott,

Missouri Senate, Lowry City

Appointed by the President Pro Tem of the Senate

Committees:
Budget

Sarah Schuette,

Department of Economic Development, Jefferson City

Governor Appointed Member

Committees:
Appeals †, Personnel

Garry Taylor,

Retired, Jefferson City

Governor Appointed Member

Committees:
Audit, Investment

† Denotes committee chairperson

The Board currently has one vacancy which is a Governor Appointed, non-member of the Plan.

Achievement

Summary of Plan Provisions

The Missouri Consolidated Health Care Plan (MCHCP), established January 1, 1994, is governed by the statutes of the State of Missouri.

Purpose

MCHCP was created to provide health care benefits to active employees, retired, terminated-vested, long-term disability, surviving subscribers of the State and their dependents and to eligible Missouri public entity employers. Currently, MCHCP administers medical benefits and an Employee Assistance Program (EAP) for eligible members of the Missouri State Employees' Retirement System (except employees of the Department of Conservation, Department of Transportation (MoDOT), Highway Patrol and State Colleges and Universities), members of the Judicial Retirement Plan, legislators, statewide elected officials and certain members of the Public School Retirement System, and enrolled Missouri public entities. In addition, dental and vision benefits are available to State employees including the Department of Conservation, MoDOT and Highway Patrol. MCHCP is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the General Assembly and bears a fiduciary obligation to the State of Missouri, the taxpayers and its members.

This is a summary of the provisions of the Revised Statutes of Missouri (RSMo), as amended, that govern the program which MCHCP administers. It does not amend or overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply.

Administration

The statutes provide that the administration of MCHCP be vested in a thirteen (13) member Board of Trustees. The Board is comprised of:

The Director of the Department of Health and Senior Services, serving ex officio

The Director of the Department of Insurance, serving ex officio

The Commissioner of the State Office of Administration, serving ex officio

Two members of the Senate, appointed by the President Pro Tem of the Senate

Two members of the House of Representatives, appointed by the Speaker of the House of Representatives

Six members appointed by the Governor with the advice and consent of the Senate. Of the six members appointed by the Governor, three shall be citizens of the state of Missouri who are not members of the plan, but who are familiar with medical issues. The remaining three members of the Board shall be members of the Plan.

The management of MCHCP is the responsibility of the Executive Director who is appointed by the Board of Trustees and serves at its pleasure.

The Executive Director acts as advisor to the Board on all matters pertaining to the Plan and, with the approval of the Board, contracts for professional services and employs the staff needed to operate the Plan.

Medical Insurance

MCHCP offers insurance coverage to State and Public Entity members, however, the types of plans vary. A Preferred Provider Organization (PPO) and Health Maintenance Organization (HMO) plans are available to State members. Plan offerings may vary by region. Point of Service (POS) and PPO plans are offered to Public Entity members.

Health Maintenance Organization (HMO)

An HMO is a health care delivery system that utilizes a network of providers to administer all necessary health care. The network includes physicians, hospitals, laboratories and other ancillary providers. In some cases, health care is directed through a primary care physician (PCP) who acts as a "gatekeeper" to all required health care services. Generally, all services can be provided within the network; however if a service cannot be provided, the HMO will make arrangements for the member to receive services elsewhere. Non-network services received are not covered unless they are due to a medical emergency or with prior approval of the HMO. In most cases, members pay set copayment amounts for services provided.

Preferred Provider Organization (PPO)

MCHCP's PPO plan is a comprehensive major medical plan which uses a network of preferred providers. A PPO plan allows members to use any provider. However, by utilizing the PPO network, members' claims are paid at a higher rate.

For State members, the PPO (Copay Plan) has network benefits with set copayments. The non-network benefits require that a deductible is met before claims are paid at 70/30. The public entity PPO plan requires that a deductible be met before most claims are paid. Network benefits are paid at 80/20 and non-network claims are paid at 60/40.

Point of Service (POS)

The POS health plan is available to Public Entities in the central, east and southwest regions of the State. It is a health care plan which provides network and non-network benefits. Claims payment is determined at the point where the member receives services or care. Members are responsible for set copayment amounts when accessing care within the plan's network of providers. If non-network providers are used, services are subject to a deductible and coinsurance amount.

Active Employees

Members working for an agency covered by MCHCP are eligible for medical coverage on the first of the month following their date of employment.

Retired Employees

Retiring employees may participate in a MCHCP plan if they have been covered under MCHCP since the effective date of the last open enrollment period; if they had continuous coverage under another medical plan for six months immediately prior to the termination of their employment, or since they were first eligible for medical coverage. When a retiree becomes eligible for Medicare, Medicare becomes the primary payer.

COBRA & Vested Participants

Under federal COBRA law, employees may continue their medical coverage at termination of employment, unless eligible for Medicare or covered by another group health plan, but participants must pay the entire cost. Terminated vested members may elect to participate in a MCHCP plan if they had coverage since the effective date of the last open enrollment period or if they had continuous coverage under another medical plan for six months immediately prior to the termination of their employment, or since they were first eligible for medical coverage.

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INTRODUCTORY SECTION
FINANCIAL

“I quit smoking January 29th and seldom get cravings for cigarettes. I usually get away from situations that make me crave a cigarette and start doing another activity. Or, I chew gum if I’m unable to get away. I’ve noticed that if I have to do running at work, I don’t get out of breath as easily and can recover my breath a lot faster. This program has been really helpful for me. I went from smoking 2 packs per day to quitting. I never pictured myself as a non-smoker but because of help from this program, I’m enjoying my smoke-free life.”

“I do Yoga 1 hour per week and 15 minutes of exercise in the morning. I also walk for 20 minutes, 3 times a week and participate in group walks around the parking lot at work. My blood pressure reading is lower at 128/72. I’m very appreciative of your time and services and this program!”

Report of Independent Auditors

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

3003 West Broadway, Suite 100, Columbia, MO 65203
(573) 442-6171 (573) 777-7800

3220 West Edgewood, Suite E, Jefferson City, MO 65109
(573) 635-6196 (573) 644-7240

www.williamskeepers.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Missouri Consolidated Health Care Plan

We have audited the accompanying balance sheets of the Missouri Consolidated Health Care Plan (the Plan) as of June 30, 2007 and 2006, and the related statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis is not a required part of the basic financial statements of the Plan, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams Keepers LLC

November 29, 2007

Management's Discussion & Analysis

This section of the annual financial report provides an overview and analysis of the financial activities of the Missouri Consolidated Health Care Plan (MCHCP) for the fiscal years ended June 30, 2007 and 2006. We encourage you to consider the information presented here in conjunction with additional information presented in the basic financial statements which follow this section.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MCHCP, like other discretely presented component units of the State of Missouri (as defined by GASB Statement No. 14), uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. The MCHCP's funds are considered proprietary funds.

Proprietary funds. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers of the provision of those goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MCHCP maintains one type: internal service fund. Internal service funds account for the financing of goods or services provided by one governmental department or agency to another and are expected to be self-supporting through charges to users. MCHCP's purpose is to provide medical insurance benefits to the State of Missouri's and other participating Missouri public entities' employees, retirees, and their dependents.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. Typically, governmental financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, because the Plan uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The basic financial statements are comprised of the Balance Sheet; the Statement of Revenues, Expenses and Change in Net Assets; the Statement of Cash Flows; and the Notes to Financial Statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental benefit plans.

The Balance Sheet presents MCHCP's financial position as of the end of the fiscal year. Information is displayed as assets and liabilities, with the difference between the two reported as net assets or deficit. The net assets of MCHCP reflect the resources available as of the end of the fiscal year to pay benefits to members when due. Over time, increases and decreases in net assets measure whether MCHCP's financial position is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Assets presents information detailing the revenues and expenses that resulted in the change in net assets that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-funded plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

continued >

Management's Discussion & Analysis *Continued*

The Statement of Cash Flows presents the cash inflows and outflows of MCHCP categorized by operating, capital and related financing, and investing activities. It reconciles the beginning and end of year cash balances contained in the Balance Sheet. The effects of accrual accounting are adjusted out and non-cash activities, such as depreciation, are removed to supplement the presentation in the Statement of Revenue, Expenses and Change in Net Assets.

The Notes to Financial Statements follow the above basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The following tables present summarized financial position and results for the fiscal years ending June 30, 2007, 2006, and 2005. Additional details are available in the accompanying basic financial statements.

Current assets increased during 2007 primarily due to increases in cash and cash equivalents, while increases in 2006 over 2005 were realized most notably in the area of investments and receivables. During 2007, the MCHCP again experienced modest growth in its self insured products to approximately 91% from 90% and 85% respectively for 2006 and 2005.

Rebates as a portion of rebates and other receivables decreased in 2007 over 2006 due primarily to the Plan's effective management of generic prescription substitutions from previously prescribed brand name alternatives. The overall savings to the Plan far outweighed the loss of rebates as every percentage point of increased generic utilization saves the Plan approximately $920,000. Rebates and other receivables increased as a result of approximately $2,600,000 in Medicare Part D subsidy payments due the plan at June 30, 2006 over 2005. Under the Medicare Modernization Act (MMA), a federal program, the retiree drug subsidy is one of the options designed to encourage employers to continue to provide prescription drug coverage to Medicare-eligible retirees at a lower cost while retaining current plan design.

Capital asset activity has been minimal as operations have not significantly changed during the years presented.

Accrued medical claims and fees increased most notably in 2007 over 2006 by approximately $10,560,000 due to increases in claims incurred but not reported (IBNR). This increase was the result of continued penetration of self funded products by over 4% in previously fully insured markets. Accrued medical claims and fees moderately decreased in 2006 over 2005 by approximately $1,372,000 due mainly to a reduction in claims incurred but not reported (IBNR). Although enrollment in the self-funded products produced a slight increase in 2006 of approximately 4% over 2005,

Condensed Balance Sheets

	2007	2006	2005
ASSETS			
Current assets	$ 202,044,507	$ 154,990,416	$ 131,817,641
Capital assets	426,853	416,629	502,564
Total assets	$ 202,471,360	$ 155,407,045	$ 132,320,205
LIABILITIES			
Accrued medical claims and fees	$ 49,625,271	$ 41,931,016	$ 43,303,103
Deferred premiums and other liabilities	20,439,807	19,269,830	17,501,769
Total current liabilities	70,065,078	61,200,846	60,804,872
Net assets:			
Unrestricted	132,005,707	93,868,241	71,143,832
Invested in capital assets, net of liabilities	400,575	337,958	371,501
Total net assets	132,406,282	94,206,199	71,515,333
Total liabilities and net assets	$ 202,471,360	$ 155,407,045	$ 132,320,205

the actuarially determined IBNR was reduced through smaller than anticipated health care expenditure trends and the speed in which claims are paid by the participating third party administrators (TPA).

Accounts payable and accrued expenses increased in 2007 due mainly to approximately $1 million in State contributions due back to the State for transfers made to the MCHCP after the month of employee termination for the period January 1, 2007 through June 30, 2007. Previous to January 2007, the various State agencies did not closely monitor contributions paid in the month of employee termination. Beginning in January 2007, with the introduction of SEBES—Statewide Employee Benefit Enrollment System, the MCHCP retained the monitoring and return of these contributions to the Office of Administration.

Deferred premiums and other liabilities increased by approximately $1,768,000 in 2006 over 2005 and are indicative of the slight increase in state contributions and the timing of receipt of payments to the MCHCP.

State contribution appropriations in 2007 increased approximately 13% over 2006 revenues due mainly to medical and pharmacy trend increases for the second half of the fiscal year of approximately 12% and 13% respectively. Contribution levels in 2006 remained relatively unchanged over 2005. Member contributions in 2007 were impacted by an increase in enrollment beginning in January 2007 over calendar year 2006 of approximately 1,700 lives. Additionally, those members who chose not to enroll in the sponsored wellness program were required to pay a higher premium for their coverage. In January 2006, the State began offering a statewide dental plan. Due to increased participation in the dental program, dental premium revenue increased by approximately $3,000,000 and accounted for the majority of the 6% increase in contributions from state members over 2005 collections. Premium rates are based on historical experience and estimates of future trends. Continuing increases in premiums have caused a number of Missouri local government entities (public entities) to leave the Plan, causing a decrease in revenues from public entities. The number of public entity members at year end 2007, increased approximately 4% over 2006 resulting in slight increases in public entity revenues for the year. Public entity revenues in 2005 were higher than 2006 due mainly to enrollment losses of approximately 1,800 lives not occurring until the second half of fiscal 2005. Those enrollment losses were maintained in 2006 without significant enrollment gains in 2006 and resulted in approximately a 28% drop in revenue for the period.

continued >

Condensed Statements of Revenue, Expenses and Change in Net Assets

	2007	2006	2005
Operating revenues:			
State/employer	$ 362,001,092	$ 319,465,109	$ 322,984,426
State employees/members	93,152,562	84,069,097	79,112,936
Public entities	9,121,094	8,989,197	12,455,591
Subcontractor and other rebates	10,150,614	8,104,447	5,306,796
Total operating revenues	474,425,362	420,627,850	419,859,749
Operating expenses:			
Medical claims and capitation expense	437,756,209	396,446,979	383,918,636
General and administration expense	7,573,108	7,418,275	6,987,643
Total operating expenses	445,329,317	403,865,254	390,906,279
Operating income	29,096,045	16,762,596	28,953,470
Investment income and other changes	9,104,038	5,928,270	2,492,453
Excess of revenues over expenses	38,200,083	22,690,866	31,445,923
Net assets, beginning of the year	94,206,199	71,515,333	40,069,410
Net assets, end of the year	$ 132,406,282	$ 94,206,199	$ 71,515,333

Management's Discussion & Analysis *Continued*

Beginning January 1, 2006, Medicare prescription drug coverage was made available to all people with Medicare, regardless of income, health status, or current health care. Because the prescription drug coverage offered by the MCHCP was actuarially considered, on average for all plan participants, at least as good as standard Medicare coverage, members were encouraged to keep their MCHCP coverage. In 2007, the Plan received $4,472,408 in subsidy payments. This increase is the result of a full year of subsidy payments in 2007. Subsidy payments in 2006 reflect only 6 months of payments since the inception of the program in January 2006.

Wellness and disease management programs were introduced in 2006 in an effort to promote healthy member outcomes and for cost containment measures. Program expenses for these programs in 2007 totaled $5,749,101 representing a full year of expenditures while 2006 expenditures of $2,839,300 represent expenditures since the inception of the programs in January 2006. In 2005, MCHCP added two new self-funded HMO's and eliminated a self-funded HMO. As a result, a greater proportion of MCHCP's total medical costs were incurred under its self-funded plans for each of the years presented. Self-funded health care costs for 2007 increased to approximately 87% of the over $437 million in total claims and administrative service costs. In 2006, approximately 85% of the $396,446,979 was for self-funding while 2005 came in at 46% of the $383,918,636 spent for health care costs incurred under self-funded plans. Medical claims and capitation expense increased in 2007 over 2006 as approximately 92% of MCHCP members are enrolled in self funded options; an increase of 2 percentage points over 2006 enrollment and 5% over 2005 enrollment. Claims administrative services has gone up for each of the three years presented and is reflective of enrollment increases in self-funded options for the periods of 2007 through 2005. The self-insured products are currently performing better than expected and are generating net revenue to the MCHCP.

MCHCP's cash is invested conservatively in overnight repurchase agreements to preserve principal and maintain liquidity. Beginning in 2006, the MCHCP invested approximately $30,000,000 in longer term maturities in an effort to maximize return on investment and to diversify the portfolio. Investment income, which consists of interest income, unrealized gains and losses in fair value, accretion of discounts, and amortization of premiums, has increased for each of the years 2007, 2006, and 2005 due mainly to a marked increase in available net assets. The overall increase in cash equivalents resulted in investment income of $9,104,038 for 2007, $5,928,270 for 2006, and $2,492,453 for 2005.

MCHCP had significant, positive change in net assets at June 30, 2007, 2006, and 2005, as a result of the actual pharmacy and self-funded medical plan costs being significantly less than the actuarial projections and the continued change in the mix of benefit offerings.

During fiscal year 2007, the Plan's actuary reviewed the financial assets of the MCHCP's trust in conjunction with the reserve obligations and funding available as provided by the Missouri General Assembly. The actuary recommended to the MCHCP Board of Trustees that the Plan maintain a minimum of reserves equal to three months of expected incurred claims in addition to the *Incurred But Not Reported* (IBNR) claims reserve. This recommended reserve, known as the *Target Claims Reserve*, is necessary in order to provide financial stability to the Plan and to ensure MCHCP's ability to meet its obligations to its members in the event of unforeseen or catastrophic events. The MCHCP Board of Trustees voted to adopt the recommendation of the actuary. As of June 30, 2007, the *Target Claims Reserve* necessary to meet the actuarial recommendation equaled $79,560,000. This claim reserve is held in trust within the unrestricted net assets of the Plan.

Summary

During the years presented, MCHCP faced a tightened State budget, which compelled it to look at new products to offer. Combined with expected continued escalation in health care costs, MCHCP faces significant challenges in an effort to provide affordable health care coverage to its members. As a result, MCHCP has explored a full range of viable options to accommodate the State budget limitations, including changes in benefit design, modifications in co-pay and deductible amounts, increases in premiums, additional self-funded programs, and changes in provider networks.

Effective January 1, 2005, MCHCP began offering two additional self-insured HMO products and discontinued a previous self-insured HMO. Beginning in 2006, wellness and disease management programs were initiated to continue to develop healthier outcomes and reduce claims expenditures. During 2007, the MCHCP continued its expansion of self-insured coverage to additional areas of the State. The overall financial position of MCHCP continues to improve with the ongoing savings from the self-funded programs and the addition of cost containment measures to produce a healthier membership in the MCHCP.

Requests For Information

This financial report is designed to provide a general overview of MCHCP's financial position for all those with an interest in the MCHCP. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Missouri Consolidated Healthcare Plan, 832 Weathered Rock Court, PO Box 104355, Jefferson City, Missouri 65110-4355.

Balance Sheets

As of June 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 166,526,989	$ 119,173,632
Investments	30,471,275	30,346,871
Rebates and other receivables	5,027,801	5,339,833
Prepaid expenses	18,442	130,080
Total current assets	202,044,507	154,990,416
Capital assets:		
Furniture, fixtures and equipment, net of accumulated depreciation of $2,273,992 and $2,091,480, respectively	426,853	416,629
Total assets	202,471,360	155,407,045
LIABILITIES		
Accrued medical claims and capitation fee expense	$ 49,625,271	$ 41,931,016
Accounts payable and accrued expenses	1,377,695	705,674
Deferred premium revenue	19,062,112	18,564,156
Total current liabilities	70,065,078	61,200,846
Net assets:		
Unrestricted	132,005,707	93,868,241
Invested in capital assets, net of liabilities	400,575	337,958
Total net assets	132,406,282	94,206,199
Total liabilities and net assets	$ 202,471,360	$ 155,407,045

The accompanying notes are an integral part of the financial statements.

Statements of Revenues, Expenses and Change in Net Assets

For the years ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
State/employer contributions	$ 362,001,092	$ 319,465,109
Member contributions	93,152,562	84,069,097
Public entity contributions	9,121,094	8,989,197
Pharmacy rebates	5,678,206	5,539,208
Medicare Part D subsidy	4,472,408	2,565,239
Total operating revenues	474,425,362	420,627,850
Operating expenses:		
Medical claims and capitation expense	414,402,466	376,750,654
Claims administration services	17,604,641	16,857,025
Payroll and related benefits	4,123,871	3,887,880
Health Management	5,749,101	2,839,300
Administration	1,473,496	1,421,837
Professional services	816,500	1,004,715
Employee Assistance Program	881,723	874,492
Depreciation	277,519	229,351
Total operating expenses	445,329,317	403,865,254
Operating revenues over operating expenses	29,096,045	16,762,596
Nonoperating revenues (expenses):		
Investment income	9,104,038	5,928,270
Change in the net assets	38,200,083	22,690,866
Net assets, beginning of year	94,206,199	71,515,333
Net assets, end of year	$ 132,406,282	$ 94,206,199

The accompanying notes are an integral part of the financial statements.

Statements of Cash Flows

For the years ended June 30, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Cash received from State, employer, members and public entities	$ 475,287,987	$ 419,761,741
Cash payments for medical claims and capitation fee payments	(406,708,210)	(378,122,743)
Cash payments to employees for services	(4,120,189)	(3,887,880)
Cash payments to other suppliers of goods and services	(25,745,485)	(22,778,238)
Net cash provided by operating activities	38,714,103	14,972,880
Cash flows from capital and related financing activities:		
Purchase of furniture, fixtures and equipment	(291,105)	(145,725)
Net cash used by capital and related financing activities	(291,105)	(145,725)
Cash flows from investing activities:		
Cash received from investment income; net of investment expenses	8,320,628	5,514,095
Purchases of investments	(360,842,337)	(431,929,005)
Proceeds from investments	361,452,068	401,749,643
Net cash used by investing activities	8,930,359	(24,665,267)
Net decrease in cash and cash equivalents	47,353,357	(9,838,112)
Cash and cash equivalents, beginning of year	119,173,632	129,011,744
Cash and cash equivalents, end of year	166,526,989	$ 119,173,632
Reconciliation of operating revenues over operating expenses to net cash provided by operating activities:		
Operating revenues over operating expenses	29,096,045	$ 16,762,596
Adjustments to reconcile operating revenues over operating expenses to net cash provided by operating activities:		
Depreciation	277,518	229,351
Changes in assets and liabilities:		
Rebates and other receivables	364,679	(2,336,384)
Prepaid expenses	111,638	(78,655)
Accrued medical claims and capitation fees	7,694,257	(1,372,089)
Accounts payable and accrued expenses	672,020	297,786
Deferred premium revenue	497,946	1,470,275
Total adjustments	9,618,058	(1,789,716)
Net cash provided by operating activities	$ 38,714,103	$ 14,972,880

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. General

The Missouri Consolidated Health Care Plan (Plan) was statutorily created and organized on January 1, 1994, with the purpose of providing medical insurance benefits to the State of Missouri's (State) employees, retirees and their dependents as well as other Missouri public entity employees, retirees and their dependents. Prior to 1994, medical insurance benefits for the State's employees, retirees and their dependents were provided by Missouri State Employees' Retirement System's (MOSERS) medical care plan. On January 1, 1994, through a transfer agreement between the Plan and MOSERS, all MOSERS related medical care plan assets and liabilities were transferred to the Plan.

The Plan's medical insurance benefits are provided through self-funded preferred provider organizations (PPO), various health maintenance organizations (HMO), and self-funded HMOs. The Plan currently has approximately 102,000 state members and their dependents, 1,880 public entity members and their dependents, and over 104,000 covered lives and is funded through both employer and employee contributions. Through December 31, 1994, all Plan members were state employees, retirees and their dependents. Beginning January 1, 1995, additional members included public entity employees, retirees and their dependents.

State contribution rates are based on the State's approved appropriation and the number of anticipated participants. State employee and public entity contribution rates are established by the Plan's Board of Trustees based on contractor bids for the plan year and budgeted employer contributions.

Beginning in January 2006, the MCHCP contracted with vendors to provide both statewide wellness and disease management programs with the goal of improving healthy outcomes for its membership.

The Plan is considered a part of the State's financial reporting entity and is included in the State's financial reports as a component unit. As the Plan is considered a political subunit of the State and provider of essential governmental services, it is not subject to federal income taxes, nor the provisions of the Employee Retirement Income Security Act of 1974.

The Plan is administered according to Missouri statutes. These statutes do not include a provision for the termination of the Plan.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Summary Of Significant Accounting Policies

A. BASIS OF ACCOUNTING:

The Plan's financial statements were prepared using the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles, as prescribed by the Governmental Accounting Standards Board (GASB). Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, establishes the accounting principles generally accepted in the United States of America hierarchy for proprietary funds. The statement requires that proprietary activities apply all applicable Governmental Accounting Standards Board (GASB) pronouncements. The Plan must also apply Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, to the extent that they do not conflict with GASB pronouncements.

B. METHOD USED TO VALUE INVESTMENTS:

Investments are reported at fair value on a trade date basis with changes in fair value recorded in investment income on the statement of revenues, expenses and changes in net assets. Investments are recorded at fair value as determined by quoted market price, when available, or estimated fair value when not available. Many factors are considered in arriving at that fair market value. In general, however, bonds and mortgages are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Realized gains and losses are based on the specific identification basis. The calculation of realized gains and losses is independent of the calculation of the change in net unrealized gains and losses.

C. DEPOSITS AND INVESTMENTS:

The Plan considers all highly liquid investments, readily convertible into cash with original maturities of three months or less to be cash equivalents.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan would not be able to recover deposits or collateral securities in the possession of an outside party. In an effort to mitigate custodial credit risk, the Plan requires the bank to sweep the accounts each night into overnight repurchase agreements for which the underlying securities must be of the type approved by the State. All remaining cash balances are to be insured or appropriately collateralized.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Plan would not be able to recover the value of investments or collateral securities in the possession of an outside party. The Plan does not have a formal policy regarding custodial credit risk. However, the bank acting as the investment manager has been approved by the Plan's Board of Trustees.

Deposits

Cash balances represent operating bank account balances. To maximize investment income, the float caused by outstanding checks is invested in overnight repurchase agreements, thus causing a negative carrying value.

At June 30, 2007 cash held in financial institution had a bank balance of $17,030,356 and a carrying value of $7,201,493. Of the bank balance, $104,516 was covered by federal depository insurance. The remaining $16,925,840 was collateralized with securities held by a third-party institution in the Plan's name. The remaining $159,325,496 of cash and cash equivalents are held in repurchase agreements and fully collateralized with securities held by a third-party financial institution in the Plan's name.

At June 30, 2006, cash held in financial institutions had a bank balance of $575,206 and a carrying value of ($14,847,738). Of the bank balance, $104,866 was covered by federal depository insurance. The remaining $470,340 was collateralized with securities held by a third-party institution in the Plan's name. The remaining $134,021,370 of cash and cash equivalents are held in repurchase agreements and offset the bank overdrafts discussed above. They are fully collateralized with securities held by a third-party financial institution in the Plan's name.

The Plan's contracted yield on its overnight repurchase agreements was 28.5 basis points above the prevailing ninety-one day U.S. Treasury Bill rate as of June 30, 2007 and 2006.

Investments

In December 2005, the Plan adopted a revised investment policy to maximize investment earnings. The Plan's investment policy is predicated on the primary objectives of safety, liquidity, and yield, in order of priority. Investments in bankers' acceptances and commercial paper are required to mature and become payable not more than one hundred eighty days from the date of purchase. All other investments are required to mature and become payable not more than five years from the date of purchase. The weighted average life should not exceed three years and be consistent with the investment objectives. The Plan follows the "prudent person" rule for investment decisions. Essentially, the Plan operates as a prudent person acting in a like capacity and familiar with similar matters would act in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibilities with respect to the Plan is covered by this "prudent person" rule.

As of June 30, 2007, and 2006, the Plan had the following investments:

Types of Investments	2007 Market Value	2006 Market Value
U.S. Agencies	$ 20,816,759	$ 16,848,719
U.S. Government Guaranteed Mortgages	3,541,293	2,215,990
U.S. Treasury	-	3,080,883
Commercial Paper	6,113,223	8,201,279
Total Investments	$ 30,471,275	$ 30,346,871

continued >

Notes to Financial Statements *Continued*

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issue. To mitigate this risk, the Plan's investment policy provides general guidelines on diversification. Investments in U.S. Treasuries and securities, collateralized time and demand deposits, and collateralized repurchase agreements can constitute up to 100% of the investment portfolio; U.S. government agencies, including mortgage backed securities, cannot exceed 60% of the portfolio; and U.S. government agency callable securities, bankers acceptances, and commercial paper cannot exceed 30% of the portfolio. At June 30, 2007, the Plan held two investments in a single issue that exceeded 5% of total investments which were not U.S. securities. These holdings were within the Plan's investment policy guidelines. Carrying value of such investments is as follows:

UBS Finance commercial paper:	$1,721,947
Madison Gas and Electric commercial paper:	$1,775,550

At June 30, 2006, the Plan held two investments in a single issue that exceeded 5% of total investments which were not U.S. securities. These holdings were within the Plan's investment policy guidelines. Carrying value of such investments is as follows:

Florida Power and Light commercial paper:	$3,447,018
American Honda Finance commercial paper:	$1,823,958

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligation. The Plan minimizes this risk by only authorizing investment types approved by the Treasurer of the State of Missouri, limiting investments to the safest types of securities, and diversifying the portfolio so potential losses on individual securities will be minimized. The Plan does not have an investment policy designating a minimal rating. The Plan's investments by credit rating category as of June 30, 2007 and 2006 are presented below.

FY 2007

Types of Investments	2007 Market Value	2007 Avg. Ratings
U.S. Agencies	$ 20,816,759	AAA/Aaa
U.S. Government Guaranteed Mortgages	3,541,293	AAA/Aaa
U.S. Treasury	–	–
Commercial Paper	6,113,223	A1/P1
Total Investments	$ 30,471,275	

FY 2006

Types of Investments	2006 Market Value	2006 Avg. Ratings
U.S. Agencies	$ 16,848,719	AAA/Aaa
U.S. Government Guaranteed Mortgages	2,215,990	AAA/Aaa
U.S. Treasury	3,080,883	–
Commercial Paper	8,201,279	A1/P1
Total Investments	$ 30,346,871	

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. The Plan minimizes this risk by 1) structuring the portfolio so securities mature to meet cash requirements for ongoing operations, 2) using cash flow modeling to moderate the interest rate risk by reducing any unanticipated security sales which could result in a loss of principal and 3) maintaining the operating funds primarily in repurchase agreements according to the banking contract. For the interest rate risk measurement for the Plan, Central Bank employs the duration method. The maturities of the Plan's investments as of June 30, 2007 and 2006 are presented below.

FY 2007

Types of Investments	2007 Market Value	2007 Avg. Duration
U.S. Agencies	$ 20,816,759	2.25
U.S. Government Guaranteed Mortgages	3,541,293	1.62
U.S. Treasury	–	–
Commercial Paper	6,113,223	0.02
Total Investments	$ 30,471,275	

FY 2006

Types of Investments	2006 Market Value	2006 Avg. Duration
U.S. Agencies	$ 16,848,719	1.72
U.S. Government Guaranteed Mortgages	2,215,990	2.14
U.S. Treasury	3,080,883	0.14
Commercial Paper	8,201,279	0.03
Total Investments	$ 30,346,871	

Foreign Currency Risk

Foreign currency risk is the risk changes in exchange rates will adversely affect the fair value of an investment. The Plan has no investments subject to foreign currency risk.

D. RECEIVABLES

Substantially all receivables are comprised of pharmacy rebates from the pharmacy benefit manager and the Medicare Part D subsidy.

E. FURNITURE, FIXTURES & EQUIPMENT

Furniture, fixtures and equipment are capitalized at cost when acquired. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Furniture and fixtures are depreciated over a ten-year useful life. Data processing equipment is depreciated over a five-year useful life. Threshold for the capitalizing of assets is $250. Maintenance and repairs are charged to expense as incurred.
The cost and related accumulated depreciation of assets sold or retired are removed from the related accounts and the resulting gains or losses are reflected as nonoperating gains or losses in the statement of revenues, expenses and change in net assets.

The changes in Furniture, Fixtures & Equipment for the years ended June 30, 2007 and 2006 are as presented:

Furniture, Fixtures, and Equipment	
Balance June 30, 2006	$ 2,508,108
Additions	294,987
Deletions	(102,250)
Balance June 30, 2007	$ 2,700,845
Accumulated Depreciation	
Balance June 30, 2006	$ 2,091,480
Depreciation Expense	277,519
Deletions	(95,007)
Balance June 30, 2007	$ 2,273,992

continued >

Notes to Financial Statements *Continued*

Furniture, Fixtures, and Equipment

Balance June 30, 2005	$	2,446,199
Additions		145,725
Deletions		(83,815)
Balance June 30, 2006	$	2,508,109

Accumulated Depreciation

Balance June 30, 2005	$	1,943,635
Depreciation Expense		229,351
Deletions		(81,506)
Balance June 30, 2006	$	2,091,480

F. PLAN FUNDING

Member Premiums - Monthly member premiums for State employees are established annually by the Plan's Board of Trustees. These premiums are deducted from employee payroll checks in advance. Additionally, the Plan bills members who are not receiving payroll checks two weeks in advance.

Public Entity Premiums - Monthly public entity premiums are established annually by the Plan's Board of Trustees. The Plan bills the public entities two weeks in advance.

State Appropriations/Contributions - Funds are appropriated to the Plan by the Missouri State Legislature. Premiums are received one half prior to the month of coverage and one half during the month of coverage.

The State's monthly per member contributions were $548 for the first six months and $640 for the last six months of fiscal year 2007 and $496 and $548, respectively, for fiscal year 2006.

Deferred Premium Revenue - Deferred premium revenue includes premium revenue from the members, public entities and the State received in advance of the month coverage is provided.

Operating/Nonoperating Revenues - Operating revenues and expenses reflect items directly related to providing health benefits to members. Nonoperating revenues and expenses represent investment income and other items not directly related to providing health benefits to members.

G. MEDICAL CLAIMS & CAPITATION

As of June 30, 2007 and 2006, the Plan insured approximately 80% of its members through various HMO contracts. Approximately 70% of the Plan's members were insured in the self-insured HMOs for both the years ended June 30, 2007 and 2006. Third party administrators are paid a contracted administrative fee per subscriber for the self-insured contracts with the Plan bearing all administrative and medical claims costs of providing coverage to the members. The fully insured HMOs are paid monthly based upon contracted capitation rates and current participation. The Plan bears no additional risk over the prevailing capitation rate for these contracts. As of June 30, 2007, and 2006, respectively, the Plan insured approximately 22% and 20% of it members under a self-insured PPO contract.

As of June 30, 2007 and 2006, $6,571,271 and $9,437,016 respectively, is included in accrued medical claims and capitation fee expenses for accrued HMO capitation expenses. Additionally, $43,054,000 and $32,494,000 at June 30, 2007 and 2006, respectively, is included in estimated accrued medical costs for claims incurred but not yet paid under the Plan's self-funded products. While management believes these estimates are adequate, the ultimate liability may be more or less than the amounts recorded. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in current operations. Contingent liabilities exist with respect to claims covered under the Plan in the event a contracted provider or carrier is unable to meet its obligations to the Plan. Changes in estimated accrued claims for fiscal years 2007 and 2006 can be viewed in the table below.

Summary of Changes in Estimated Accrued Claims

	2007	2006
Balance at beginning of year	$ 32,494,000	$ 36,707,000
Current year claims and changes in estimates	300,492,666	259,505,221
Claim Payments	(289,932,666)	(263,718,221)
Balance at end of year	$ 43,054,000	$ 32,494,000

H. RETIREMENT PLAN

All of the Plan's full-time employees are eligible to participate in the Missouri State Employees' Plan (MSEP). MSEP is a single employer public employee retirement plan of the State of Missouri administered in accordance with Sections 104.010 and 104.312 to 104.1093 of the Revised Statutes of Missouri. Benefits are established by and can be amended by State of Missouri legislative process. Responsibility for the operation and administration of MSEP is vested in the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. MSEP provides retirement, death and disability benefits to participants and their beneficiaries. MSEP is considered a part of the State of Missouri financial reporting entity and is included in the State's financial reports as a pension trust fund. MSEP issues a stand-alone report which may be obtained by contacting the MOSERS office located at 907 Wildwood, P0 Box 209, Jefferson City, MO 65102.

With respect to the Plan, MSEP is accounted for and reported as a cost-sharing pension plan. Plan payroll for employees covered by MSEP for the years ended June 30, 2007 through 2005 was approximately $2.9 million each year. These amounts also represent the Plan's total payroll, excluding related benefits. The Plan made 100% of its actuarially-determined required contributions for the years ended June 30, 2007, 2006, and 2005 which were approximately $377,000, $354,000, and $309,000 respectively. These contributions represented 12.78%, 12.59%, and 10.64% respectively of covered payroll, and are included in payroll and related benefit expense. Employees are not required to make contributions.

I. OTHER POST-EMPLOYMENT BENEFITS - RETIREE MEDICAL INSURANCE

Retirees who had state-sponsored medical insurance coverage for at least two years (or since first eligible) before they are eligible to retire, based on their plan's criteria, may continue coverage into retirement. At June 30, 2007 and 2006, there were 17,241 and 16,785 retirees and their dependents who met these eligibility requirements, respectively.

During the years ended June 30, 2007, and 2006, expenditures (net of retiree contributions) of approximately $24.5 million and $24.8 million, respectively, were recognized for postretirement medical insurance coverage under the self-funded PPO option and $53.1 million and $59.6 million, respectively, under the HMO and self-insured HMO options.

Governmental Accounting Standards Board (GASB) has issued two statements related to accounting and reporting for postemployment benefits other than pensions (OPEB): GASB #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which is first effective for certain governments with fiscal years beginning after December 15, 2006, and *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which is generally first effective one year prior to the effective dates of GASB #45.

MCHCP is considered an "agent multiple employer plan" because each employer remains individually responsible for financing its own commitment to provide benefits to its participants, including any eligible retirees. It does not have a trust or separate fund established to accumulate assets dedicated to providing benefits to retirees. It currently accounts and reports for its activities under GASB #10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.* GASB #10 was amended by GASB #45 but remains in effect for accounting for healthcare benefits to retirees until the effective date of GASB #45. Thus, GASB #45 will be effective for MCHCP's fiscal year ending June 30, 2008, at which time it will report under the requirements of GASB #43.

The most significant impact of implementing GASB #43 is that benefits paid to or on behalf of retirees will be required to be reported in an Agency Fund separate from the remainder of MCHCP's activity.

J. DEFERRED COMPENSATION PLAN

Plan employees have the option of contributing to the Missouri State Public Employees Deferred Compensation Commission (Deferred Compensation Plan) which has appointed CitiStreet as its plan administrator. Employees are eligible upon hire to contribute to the deferred compensation plan and upon completing one year of employment are eligible to receive a $25 contribution if the employee also makes at least a $25 contribution.

The Deferred Compensation Plan is an eligible state deferred compensation plan as defined by Section 457 of the Internal Revenue Code.

continued >

Notes to Financial Statements *Continued*

Effective January 1, 1999, amounts deferred under the plan are held in trust for the exclusive benefit of the plan participants and their beneficiaries.

K. EMPLOYEE ASSISTANCE PROGRAM

Beginning January 1, 1996, an employee assistance benefit program was offered to all State employees and their immediate families. The program, serviced through Magellan Health Services, offers six free mental health counseling sessions per episode per year and can be accessed 24 hours a day through a toll-free number.

L. SUBSEQUENT EVENT

In fiscal year 2008, the Missouri General Assembly appropriated $15,022,657 for other post employment benefits (OPEB) funding. The State's Office of Administration originally requested $40 million dollars, the actuarially determined annual required contribution (ARC) for year 1 under GASB #45. In addition, the legislature authorized the creation of an irrevocable trust to receive and invest the State's OPEB funding. Under provisions of the trust agreements, the Missouri State Employees' Retirement System (MOSERS) will invest the proceeds of the trust in various investment options. The trust has not yet been established pending MOSERS receiving final approval of the trust agreement from the Internal Revenue Service (IRS). Until the trust is established, the Plan is holding the funds received in its own operating accounts. The Plan did not receive any of these appropriated funds until after July 1, 2007.

STATISTICAL SECTION

"I have decreased my cholesterol by diet and exercise. My beginning total Cholesterol was 213 and it's now 194; LDL was 149 and now it's 122; HDL was 40 and now is 58 and my Triglycerides were decreased by 50! I do weight training and elliptical 3 times per week for 1 1/2 hours.

"The frequency of my migraine headaches has decreased. I now have fewer than 5 a month—they had been as frequent as 9 times a month. Triggers are stress and changes in weather. I have found the information I receive from the program very useful and educational. I've been documenting my headaches in the journal I received and have become more aware of factors affecting my migraine incidence."

Internal Service Fund Historical Data

Revenues By Source

Ten Years Ended June 30, 2007

Fiscal Year	State/Employer Contributions	Member Contributions	Public Entity Income	Pharmacy Rebates & Subsidy	Total Operating Revenues	Interest Income
2007	$ 362,001,092	$ 93,152,562	$ 9,121,094	$ 10,150,614	$ 474,425,362	9,104,038
2006	319,465,109	84,069,097	8,989,197	8,104,447	420,627,850	5,928,270
2005	322,984,426	79,112,936	12,455,591	5,306,796	419,859,749	2,492,453
2004	281,657,137	84,756,549	18,201,930	5,169,299	389,784,915	765,034
2003	263,544,820	84,372,737	26,378,699	4,610,566	378,906,822	668,168
2002	222,987,803	75,701,524	37,630,463	–	336,319,790	968,329
2001	169,804,969	62,083,511	76,430,017	–	308,318,497	2,157,472
2000	108,821,820	48,561,768	94,336,655	–	251,720,243	2,125,779
1999	95,312,925	41,993,101	72,710,319	–	210,016,345	2,124,487
1998	85,949,062	37,805,702	53,123,454	–	176,878,218	2,805,315

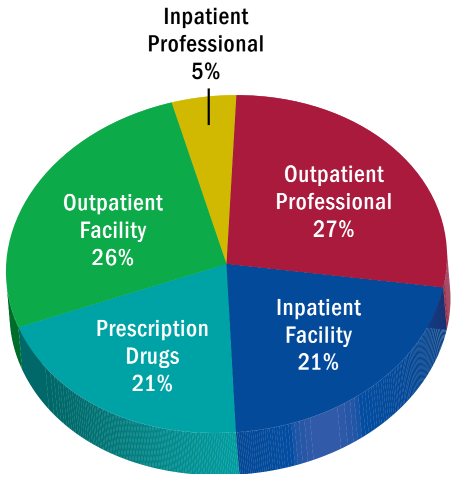
Expenses By Type

Ten Years Ended June 30, 2007

Fiscal Year	Medical Claims/ Capitation & Health Administrative Services	Administration & Payroll	Other	Total Operating Expenses & Fees	Loss on Disposal of Fixed Assets
2007	$ 437,756,208	$ 5,597,367	$ 1,975,742	$ 445,329,317	–
2006	396,446,979	5,309,717	2,108,558	403,865,254	–
2005	383,918,636	5,290,374	1,697,269	390,906,279	–
2004	366,923,269	5,364,366	1,549,405	373,837,040	(24,050)
2003	348,145,907	5,619,962	1,610,952	355,376,821	–
2002	334,208,591	5,314,606	1,795,708	341,318,905	(1,722)
2001	306,651,524	5,553,262	1,995,988	314,200,774	(5,101)
2000	258,313,998	5,493,142	2,608,799	266,415,939	(745)
1999	212,036,418	5,365,111	2,034,140	219,435,669	(9,108)
1998	182,673,726	4,479,791	1,657,138	188,810,655	(335)

Distribution of Claim Payments

State Members
FY 07



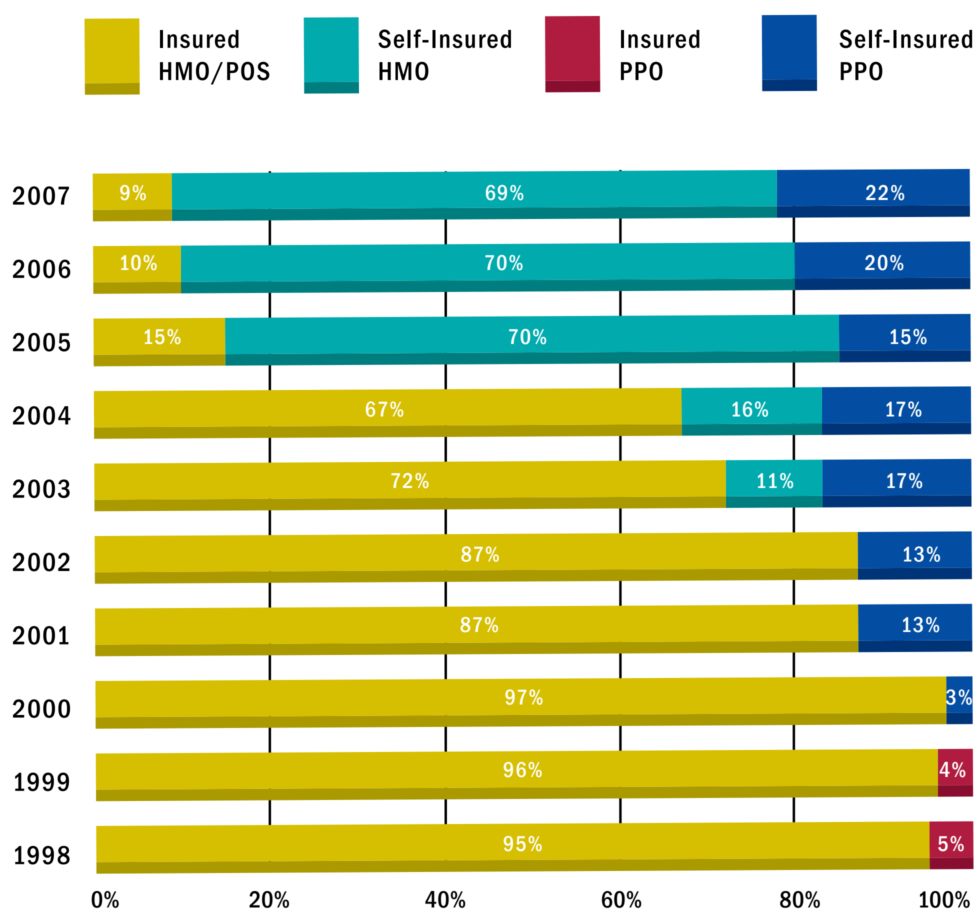
INVESTED IN YOUR HEALTH

Successes of the Lifestyle Ladder Program

Take the Pressure Off program reported an average systolic improvement of 4.39 points and an average diastolic improvement of 2.99 points.

Total Lives by Healthcare Option

State Members
1998-2007



Statements of Revenues, Expenses & Change in Net Assets

Ten years ended June 30, 2007

	2007	2006	2005	2004
Operating revenues:				
State/employer contributions	$ 362,001,092	$ 319,465,109	$ 322,984,426	$ 281,657,137
Member contributions	93,152,562	84,069,097	79,112,936	84,756,549
Public entity contributions	9,121,094	8,989,197	12,455,591	18,201,930
Pharmacy rebates	5,678,206	5,539,208	5,306,796	5,169,299
Medicare Part D subsidy	4,472,408	2,565,239	–	–
Total operating revenues	474,425,362	420,627,850	419,859,749	389,784,915
Operating expenses:				
Medical claims and capitation expense	414,402,466	376,750,654	370,454,024	357,845,282
Claims administration services	17,604,641	16,857,025	13,464,612	9,077,987
Payroll and related benefits	4,123,871	3,887,880	3,920,693	3,785,291
Health Management	5,749,101	2,839,300	–	–
Administration	1,473,496	1,421,837	1,369,681	1,579,075
Professional services	816,500	1,004,715	633,549	416,113
Employee Assistance Program	881,723	874,492	868,345	873,428
Depreciation	277,519	229,351	195,375	259,864
Total operating expenses	445,329,317	403,865,254	390,906,279	373,837,040
Operating revenues over operating expenses	29,096,045	16,762,596	28,953,470	15,947,875
Nonoperating revenues (expenses):				
Investment income	9,104,038	5,928,270	2,492,453	765,034
Loss on disposal of furniture, fixtures and equipment	–	–	–	(24,050)
Other nonoperating expenses	–	–	–	1,220
Change in the net assets	38,200,083	22,690,866	31,445,923	16,690,079
Net assets, beginning of year	94,206,199	71,515,333	40,069,410	23,379,331
Net assets, end of year	$ 132,406,282	$ 94,206,199	$ 71,515,333	$ 40,069,410

INVESTED IN YOUR HEALTH

Successes of the Lifestyle Ladder Program

"I love the Gordian programs. I have decreased my weight from 143 lbs to 140 lbs during the program. My blood pressure has decreased from 140/80 to 126/60. Even though I'm on blood pressure and cholesterol medications, I feel that the program has been a major contributing factor to my health improvements. The program has also helped decrease my stress levels during work. I feel great and love talking with the health coaches and reading the educational materials from Gordian. I will be retiring soon and hope that I will stay with MCHCP for my health insurance so I can continue participating in the Gordian programs."

	2003	2002	2001	2000	1999	1998
	$ 264,052,867	$ 222,987,803	$ 169,804,969	$ 108,821,820	$ 95,312,925	$ 85,949,062
	84,372,737	75,701,524	62,083,511	48,561,768	41,993,101	37,805,702
	26,378,699	37,630,463	76,430,017	94,336,655	72,710,319	53,123,454
	–	–	–	–	–	–
	–	–	–	–	–	–
	374,804,303	336,319,790	308,318,497	251,720,243	210,016,345	176,878,218
	338,173,615	331,099,846	306,651,524	258,313,998	212,036,418	182,673,726
	5,869,772	3,108,745	–	–	–	–
	3,753,395	3,697,765	3,590,842	3,398,416	3,144,763	2,766,029
	–	–	–	–	–	–
	1,866,567	1,616,841	1,962,420	2,094,726	2,220,348	1,713,762
	417,463	626,456	850,023	1,372,514	962,413	633,947
	912,175	889,080	917,299	1,013,368	796,806	729,388
	281,314	280,172	228,666	222,917	274,921	293,803
	351,274,301	341,318,905	314,200,774	266,415,939	219,435,669	188,810,655
	23,530,002	(4,999,115)	(5,882,277)	(14,695,696)	(9,419,324)	(11,932,437)
	668,168	968,329	2,157,472	2,125,779	2,124,487	2,805,315
	–	(1,722)	(5,101)	(745)	(9,018)	(335)
	(7,460)	–	–	–	–	–
	24,190,710	(4,032,508)	(3,729,906)	(12,570,662)	(7,303,855)	(9,127,457)
	(811,379)	3,221,129	6,951,035	19,521,697	26,825,552	35,953,009
	$ 23,379,331	$ (811,379)	$ 3,221,129	$ 6,951,035	$ 19,521,697	$ 26,825,552

Many of the Weigh to be Healthy program participants experienced weight loss. Approximately 56% of members lost an average 7.6 lbs. Keep in mind that, in addition to diet and exercise, this program encourages stress reduction goals, so weight loss may not be a goal for all participants.

State members have lost a total of 4,574 pounds!

State Membership Enrolled in MCHCP

Subscribers & Dependents

Ten Years Ended June 30, 2007

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	DISABLED Female	DISABLED Male	RETIREES Female	RETIREES Male	SURVIVORS Female	SURVIVORS Male	VESTED Female	VESTED Male	TOTAL
< 1	332	334	1	1			2	1				1	672
1 - 10	6,223	6,464	7	9	8	5	18	14	7	2	3	3	12,763
11 - 19	7,480	7,693	5	13	28	18	115	127	11	17	13	12	15,532
20 - 24	3,014	2,670	13	11	6	12	108	104	11	13	5	6	5,973
25 - 29	2,848	1,503	12	6	1		1	7	1			1	4,380
30 - 34	3,165	1,794	7	5	4		7	5		1	2	1	4,991
35 - 39	3,887	2,252	5	5	13	3	4	3			10	3	6,185
40 - 44	4,157	2,569	7		21	9	13	6		1	6	5	6,794
45 - 49	5,018	2,957	8	7	35	15	29	13	5	2	36	11	8,136
50 - 54	4,949	3,333	14	8	56	26	504	192	16	3	48	17	9,166
55 - 59	3,932	2,998	18	7	58	38	1,535	813	23	3	24	23	9,472
60 - 64	1,863	1,905	13	7	39	21	2,078	1,222	39	19	16	15	7,237
65 - 69	421	523			1	4	1,903	1,142	66	19	2	2	4,083
70 - 74	108	126			1	1	1,552	986	95	26			2,895
75 - 79	23	33				1	1,079	655	120	24	1		1,936
80 +	4	7					1,321	595	269	27		1	2,224
TOTAL	47,424	37,161	110	79	271	153	10,269	5,885	663	157	166	101	102,439

Summary

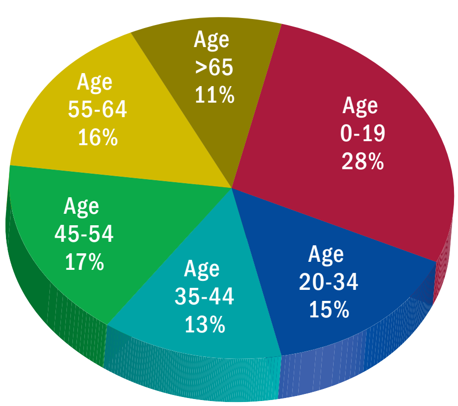
Average Age: 37.85 years

Percent of Total:
Male - 42.50%
Female - 57.50%

	Total Active	Total COBRA	Total Disabled	Total Retirees	Total Survivors	Total Vested	Total
2007	84,585	189	424	16,154	820	267	102,439
2006	83,129	192	466	15,668	819	298	100,572
2005	86,459	185	515	15,351	800	296	103,606
2004	85,200	181	541	15,128	792	326	102,168
2003	88,123	249	676	13,392	765	336	103,541
2002	90,639	295	658	12,997	725	377	105,691
2001	91,610	363	668	12,408	703	505	106,257
2000	95,135	531	670	10,786	658	966	108,746
1999	94,571	626	629	10,122	613	1,162	107,723
1998	89,820	954	582	9,533	585	768	102,242

State Plan Demographics

FY 2007



Total Lives: 102,439

Public Entity Membership Enrolled in MCHCP

Subscribers & Dependents

Ten Years Ended June 30, 2007

Age	ACTIVE Female	ACTIVE Male	COBRA Female	COBRA Male	RETIREES Female	RETIREES Male	TOTAL
< 1	2	2					4
1 - 10	93	25					118
11 - 19	126	28					154
20 - 24	89	15				1	105
25 - 29	110	21				1	132
30 - 34	100	19			1		120
35 - 39	114	19					133
40 - 44	133	17					150
45 - 49	176	35					211
50 - 54	223	25			1		249
55 - 59	211	20	4		2		237
60 - 64	136	18	1		5		160
65 - 69	59	12	6	1			78
70 - 74	16	4	5	1			26
75 - 79	3						3
80 +							0
TOTAL	1,591	260	16	2	9	2	1,880

Year	Total Active	Total COBRA	Total Retirees	Total
2007	1,851	18	11	1,880
2006	1,795	11	14	1,820
2005	1,654	5	24	1,683
2004	3,595	37	92	3,724
2003	4,900	47	122	5,069
2002	8,324	105	310	8,739
2001	15,217	183	525	15,925
2000	54,140	744	3,899	58,783
1999	47,151	652	3,525	51,328
1998	33,444	369	2,845	36,658

Summary

Average Age: 41.20 years

Percent of Total:
Male - 14.04%
Female - 85.96%

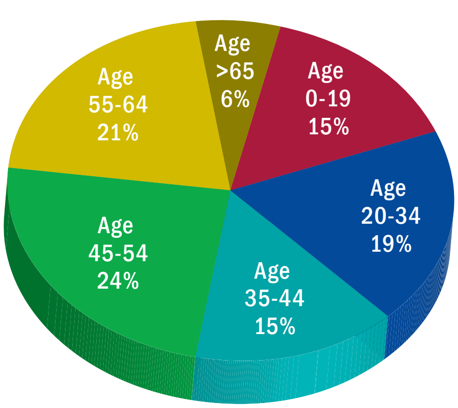
Invested in Your Health

Successes of the Lifestyle Ladder Program

Short Circuiting Stress program were asked to rate the effect stress has had on their life (1 = alot, 2 = some, 3 = barely any or none). Stress levels improved in one year from 1.2 to 1.5 on average.

Public Entity Plan Demographics

FY 2007

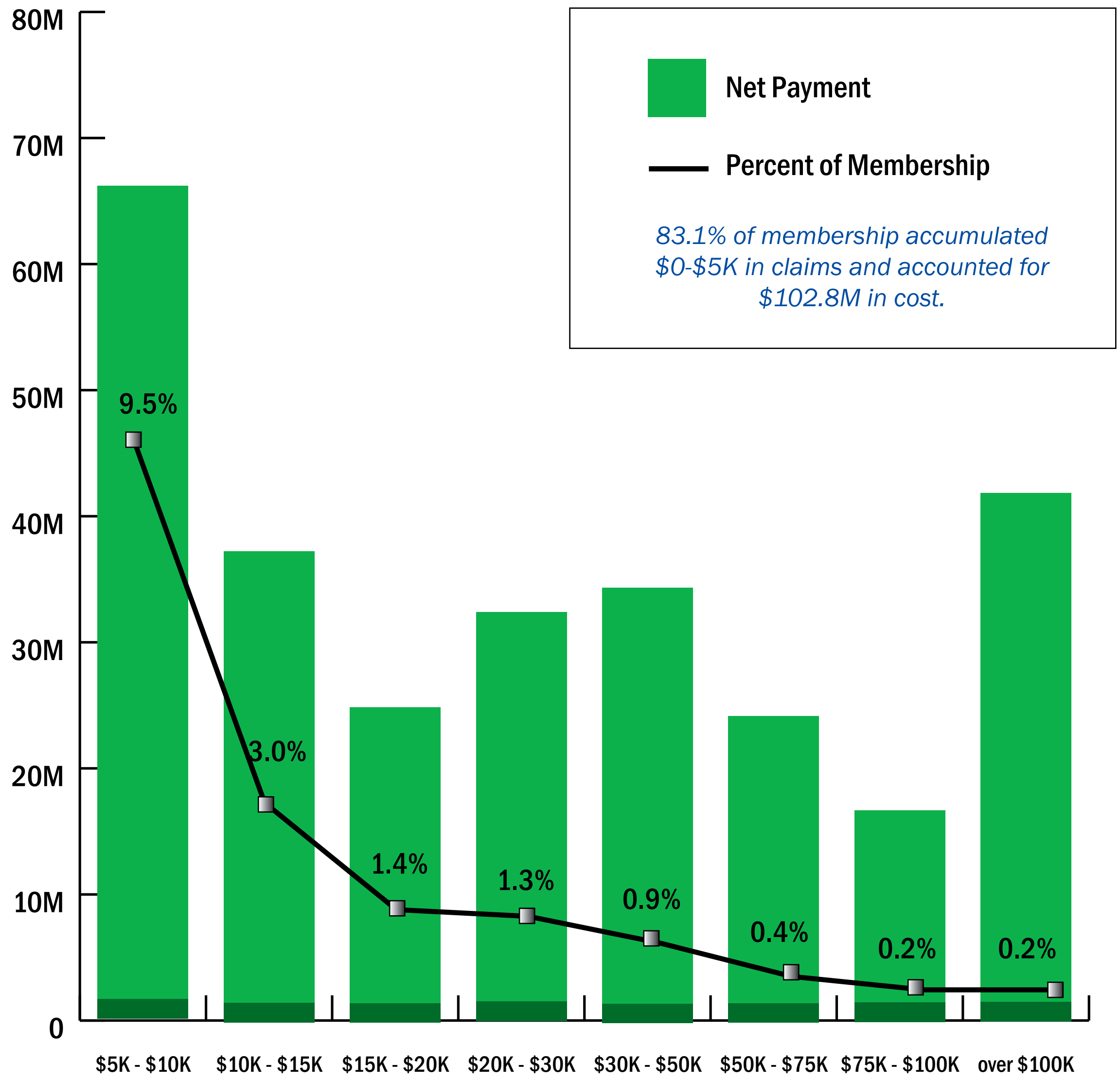


Total Lives: 1,880

Paid Claims Distribution by Individual

State Members

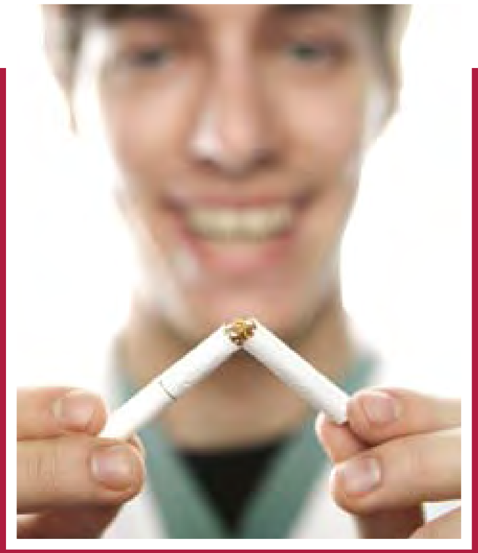
FY 07



Invested in Your Health

Successes of the Lifestyle Ladder Program

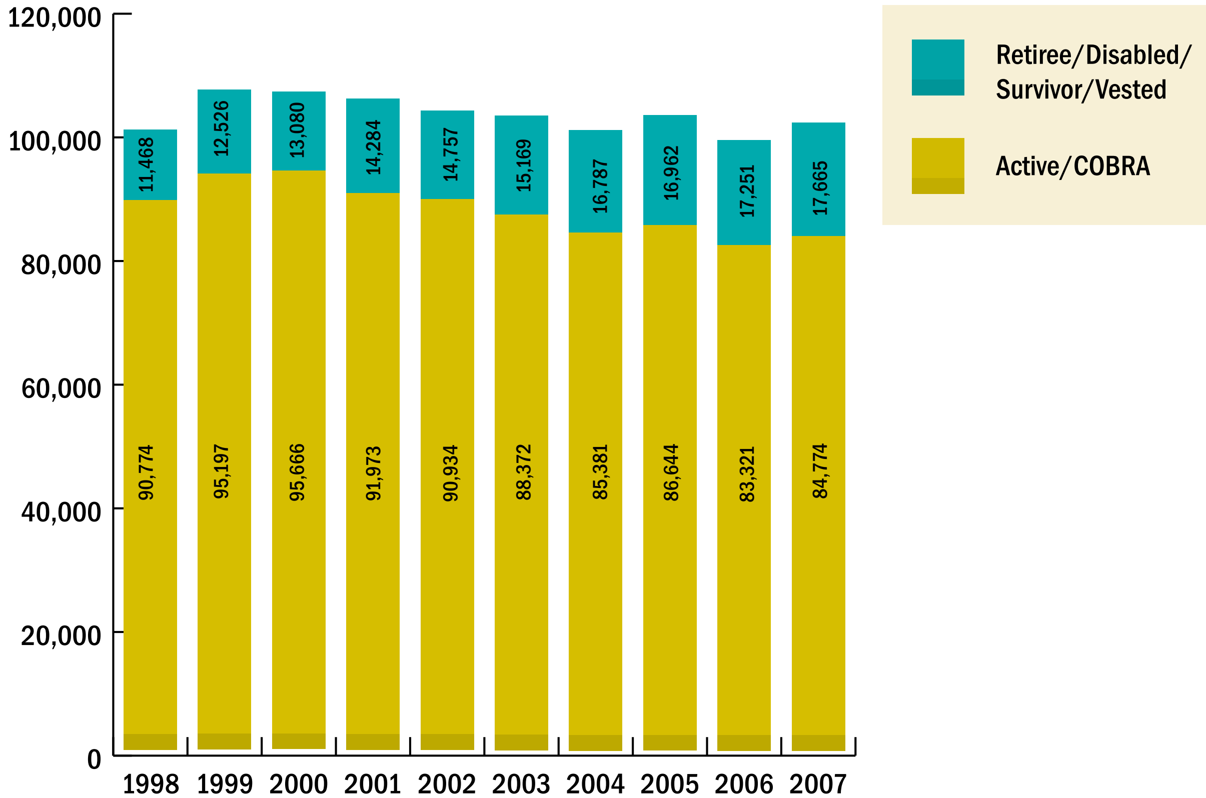
Nicotine Replacement Therapy program participants showed they were able to kick the habit. 30% reported they no longer smoke cigarettes and 38% quit using smokeless tobacco.



Enrollment Distribution

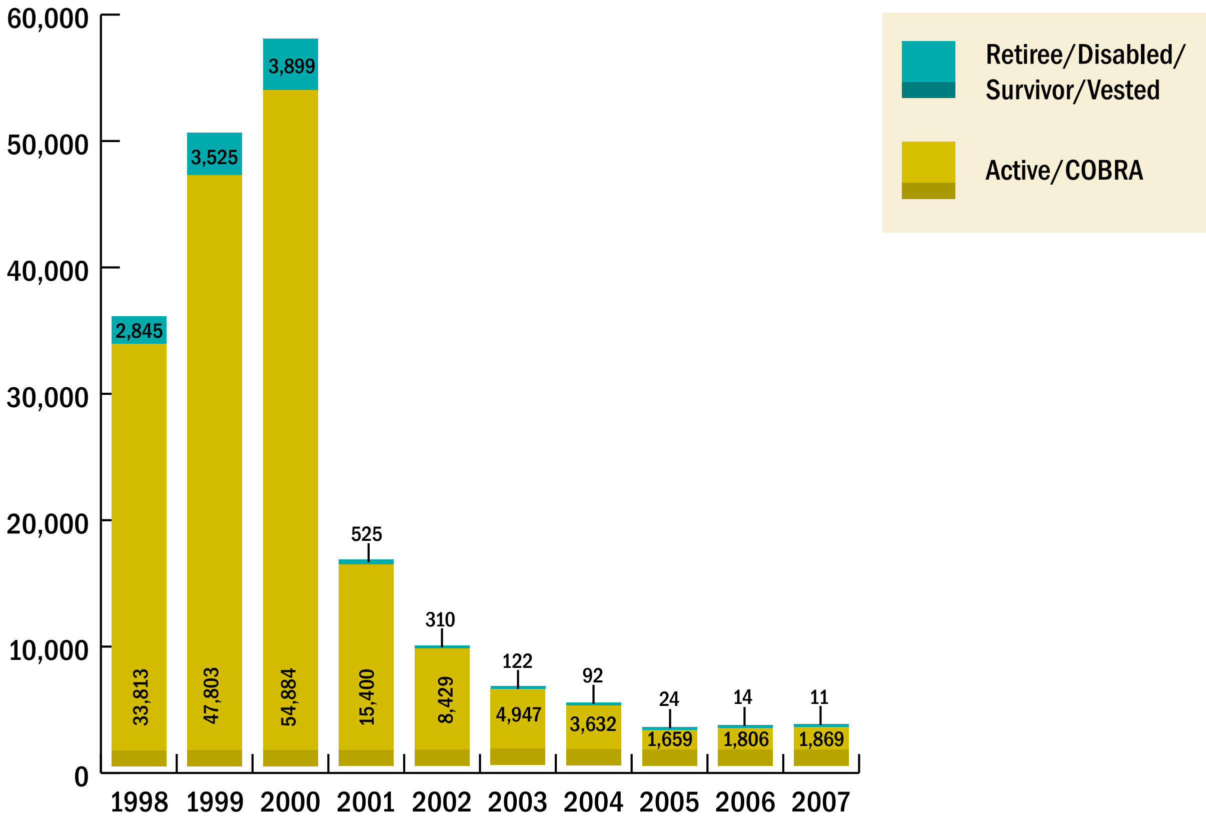
State Members

1998-2007



Public Entity Members

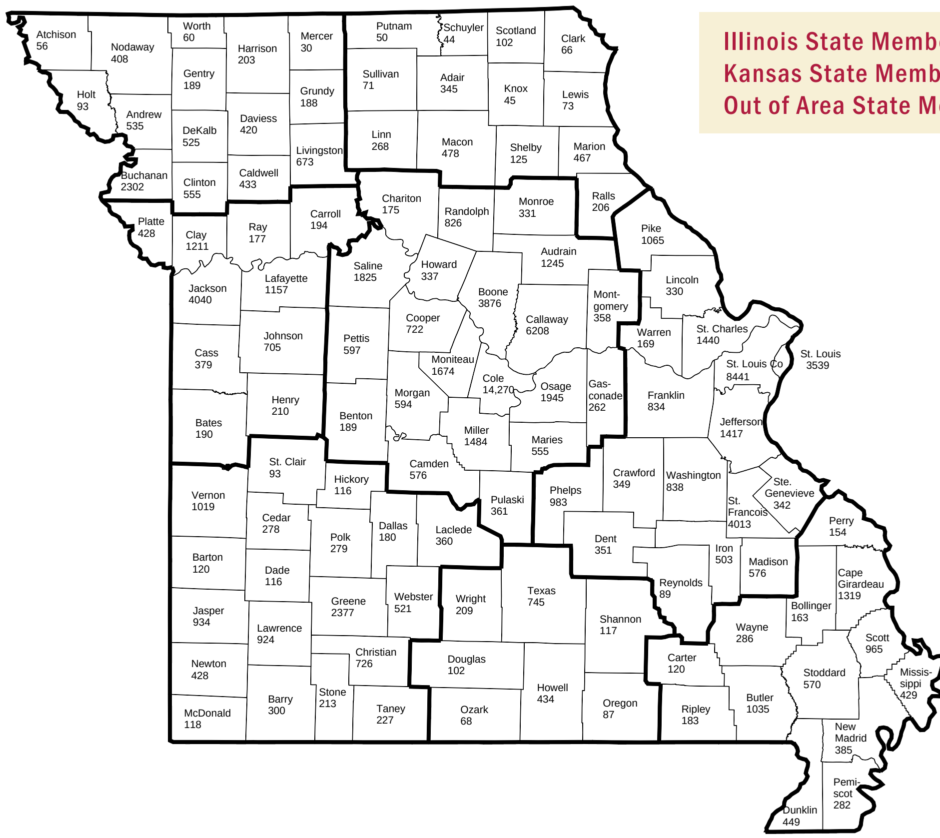
1998-2007



Membership by County

State Members

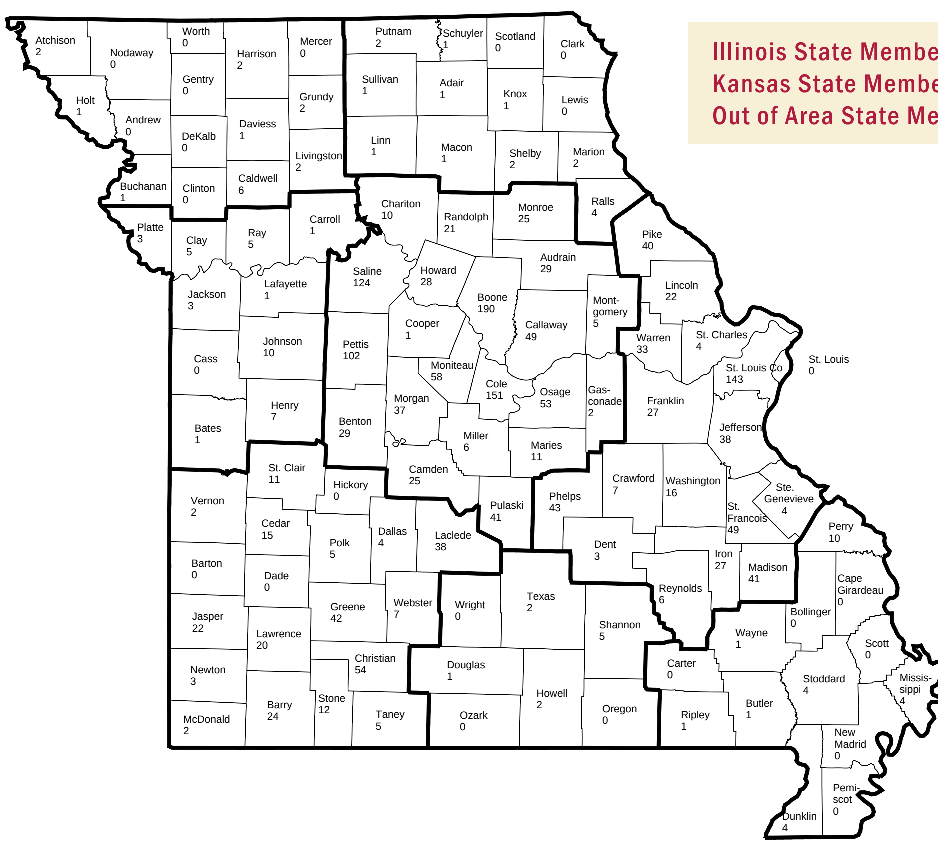
June 30, 2007



Illinois State Membership:	894
Kansas State Membership:	577
Out of Area State Membership:	1,118

Public Entity Members

June 30, 2007



Illinois State Membership:	0
Kansas State Membership:	0
Out of Area State Membership:	0

Missouri Consolidated Health Care Plan
832 Weathered Rock Court
PO Box 104355
Jefferson City, MO 65110-4355

www.mchcp.org